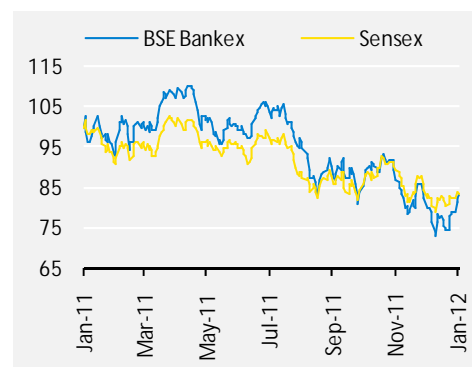


January 12, 2012

Adarsh Parasrampuria  
adarshparasrampuria@plindia.com  
+91-22-66322236

Parul Gulati  
parulgulati@plindia.com  
+91-22-66322242

### Sensex v/s BSE Bankex



Source: Bloomberg

### Stock Performance

(%)	1M	6M	12M
Sensex	1.1	(12.9)	(17.9)
BSE Bankex	4.0	(18.7)	(18.8)
Axis Bank	(3.1)	(25.7)	(28.4)
Bank of Baroda	2.1	(16.5)	(14.9)
Bank of India	(9.7)	(26.0)	(32.5)
HDFC	6.2	(0.3)	1.0
HDFC Bank	8.0	(5.9)	5.8
ICICI Bank	10.5	(25.3)	(26.9)
IDFC	4.4	(16.5)	(33.7)
IndusInd Bank	11.7	4.1	17.5
Kotak Mahindra	(3.6)	(1.8)	10.3
PNB	1.1	(19.3)	(24.3)
SBI	(0.5)	(26.5)	(33.9)
YES Bank	(0.7)	(10.8)	2.0

With large accounts getting restructured, the focus is now shifting from reported NPAs to accretion to the restructured book. We met with the *Chief General Manager* of the CDR cell to understand the current trends and possible hit to the banks. **We see ~Rs1,100bn (2.6% of system loans) of accretion over next 2-3 quarters to the restructured book and believe PSU banks will be impacted more compared to private banks. SBI should see lower restructuring relative to PSU peers, given lower airline/SEB/private power exposure.**

- **Restructuring intensifying:** Most recent CDR cell data (Oct-Dec 2011) indicates ~Rs190bn addition to approved CDR cases and similar number of fresh CDR references. Including Air india (Rs200bn), short term SEB restructuring (Rs300bn) and fresh accretion, we expect ~Rs1,110bn of accretion to the restructured book over next 6 months. **The CDR cell believes that restructuring is on a rise and similar accretions could be expected over the next 2 quarters.**
- **Sectors impacted:** Most large restructurings have been case-specific issues, but telecom and power equipments have seen large number of CDR referrals. Contrary to market expectations, not many textile cases have been registered with the CDR cell. Also, power producers have not been referred, given long gestation NPA recognition, especially under-construction projects. **However, some large road operators could see restructuring over the next 1-2 quarters.**
- **Bank's NPV sacrifice between ~10-20%:** Though NPV sacrifices vary with every project, **bank sacrifices have on an average been 10-20%**, with NPV sacrifice on bank's GTL exposure expected to be ~10-15%. There have been few accounts where banks have increased interest rates to compensate for NPV sacrifice from rescheduling; however, such cases are limited.
- **Impact on banks:** We believe, given high ratio of accepted cases (~90% of referred cases), stress from the restructured portfolio will extend beyond NPV hits. Our sensitivity to stress sectors indicates ~15% hit for ICICI/Axis and ~20-30% hit on PSU's net worth and adjusted valuations screen better for ICICI/Axis v/s PSU banks (Refer page 3). **We find valuations reasonable for the sector, but given higher restructuring expected for PSUs, we maintain preference for ICICI/Axis over PSUs. Risks from restructuring seem limited for SBI, given lower exposure to Airlines/SEB/Private power v/s peers.**

### Exhibit 1: Possible accretion to restructured book (Rs bn)

Addition to approved cases (Oct-Dec-11)	188
Cases under finalisation (Dec-11)	261
Air India debt under restructuring	200
Possible cases to be referred in Jan-Mar-12 expecting current run-rate	192
Short-term SEB restructuring	250
<b>Total restructuring expected in the next six months</b>	<b>1,091</b>

Source: www.cdrindia.org, PL Research

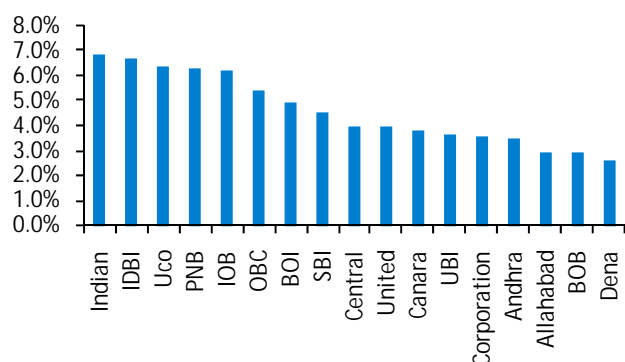
**Exhibit 2: Cases with CDR have increased by Rs440bn over the last nine months**

	Mar-10	Mar-11	Jun-11	Sep-11	Dec-11
<b>Total References Received</b>					
No. of cases	256	305	323	341	364
<b>Aggregate Debt (Rs bn)</b>	<b>1,160</b>	<b>1,386</b>	<b>1,432</b>	<b>1,643</b>	<b>1,835</b>
<b>Cases Rejected/Closed</b>					
No. of cases	32	42	47	48	52
Aggregate Debt (Rs bn)	71	97	166	167	175
<b>Cases under finalization</b>					
No. of cases	9	21	24	34	37
Aggregate Debt (Rs bn)	46	180	75	264	261
<b>Total Cases Approved</b>					
No. of cases	215	242	252	259	275
<b>Aggregate Debt (Rs bn)</b>	<b>1,043</b>	<b>1,109</b>	<b>1,191</b>	<b>1,212</b>	<b>1,400</b>

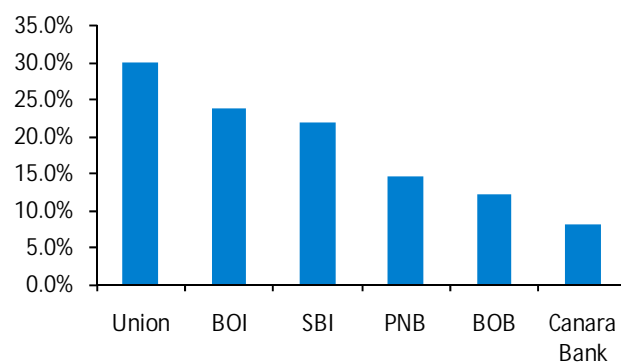
Source: www.cdrindia.org, PL Research

Cases registered with the CDR cell increased by Rs440bn in M9FY12 and ~Rs190bn in Q3FY12.

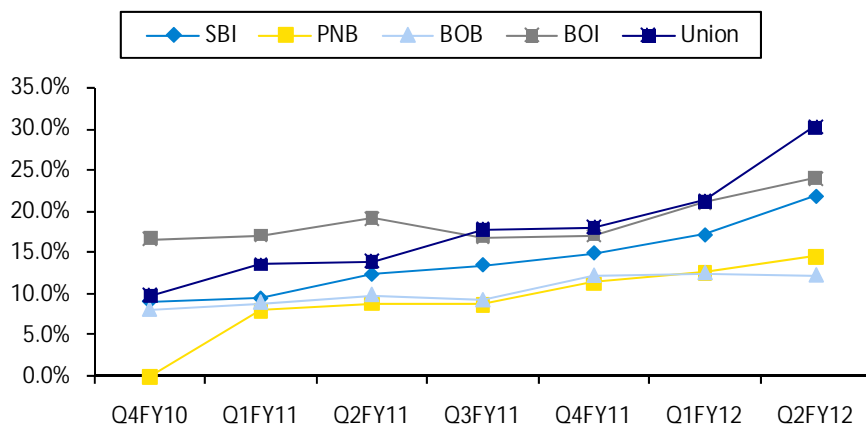
With new case referrals expected to remain high, Rs260bn of pending cases in Dec-11, SEB and Air India not included in CDR restructuring, we expect ~Rs1,100bn of accretion to restructured book in the next six months.

**Exhibit 3: Restructured Book as % of Advances**


Source: Company Data, PL Research

**Exhibit 4: Slippages as high as 25-30% from the old restructured book**


Source: Company Data, PL Research

**Exhibit 4: Slippages still inching up from the restructured book**


Source: Company Data, PL Research

**Exhibit 5: Impact from stress assets lower for ICICI/Axis v/s PSU peers**

	ICICI	Axis	SBI	PNB	BOB	BOI	Union
<b>Stress sectors excl. Infra</b>	<b>19.8%</b>	<b>16.1%</b>	<b>17.7%</b>	<b>24.7%</b>	<b>22.0%</b>	<b>19.2%</b>	<b>16.8%</b>
Additional stress (assumption)	2.0%	2.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Non-Infra ( % of total exposure)</b>	<b>0.40%</b>	<b>0.32%</b>	<b>0.71%</b>	<b>0.99%</b>	<b>0.88%</b>	<b>0.77%</b>	<b>0.67%</b>
<b>Infra Portfolio</b>							
SEB	0.0%	0.0%	1.5%	3.9%	3.8%	3.0%	4.0%
Private power	5.9%	5.8%	3.2%	5.6%	3.9%	7.4%	4.5%
Other Infra	3.9%	6.5%	5.0%	3.7%	4.9%	4.8%	1.4%
<b>Additional stress – Infra (assumption)</b>							
SEB	10%	10%	10%	10%	10%	10%	10%
Private power	10%	10%	10%	10%	10%	10%	10%
Other Infra	5%	5%	5%	5%	5%	5%	5%
<b>Infra ( % of total exposure)</b>	<b>0.79%</b>	<b>0.90%</b>	<b>0.72%</b>	<b>1.12%</b>	<b>1.02%</b>	<b>1.28%</b>	<b>0.93%</b>
<b>Total stress</b>	<b>1.18%</b>	<b>1.23%</b>	<b>1.43%</b>	<b>2.11%</b>	<b>1.90%</b>	<b>2.04%</b>	<b>1.60%</b>
<b>Exposure (Rs bn)</b>	<b>6308</b>	<b>2956</b>	<b>14777</b>	<b>3031</b>	<b>2734</b>	<b>2608</b>	<b>1791</b>
Write-offs (Rs bn)	74.56	36.26	210.80	64.02	51.84	53.29	28.58
<b>FY12 Equity</b>	<b>587</b>	<b>222</b>	<b>954</b>	<b>240</b>	<b>235</b>	<b>179</b>	<b>125</b>
<b>% of FY12 Equity</b>	<b>12.7%</b>	<b>16.3%</b>	<b>22.1%</b>	<b>26.6%</b>	<b>22.0%</b>	<b>29.8%</b>	<b>22.9%</b>
Price	776	931	1747	893	718	305	191
Sep-12 book	527	580	1590	805	659	318	227
<b>Current multiples (x)</b>	<b>1.47</b>	<b>1.60</b>	<b>1.04</b>	<b>1.11</b>	<b>1.09</b>	<b>0.96</b>	<b>0.84</b>
<b>Adjusted for stress</b>	<b>1.69</b>	<b>1.92</b>	<b>1.41</b>	<b>1.51</b>	<b>1.40</b>	<b>1.37</b>	<b>1.09</b>
Average	1.87	2.31	1.41	1.37	1.12	1.29	1.08
-1 Std deviation	0.40	0.61	0.35	0.28	0.29	0.25	0.28
-1 Std deviation	1.47	1.70	1.06	1.09	0.83	1.04	0.80
Lehman Low	0.60	0.72	0.70	0.58	0.49	0.65	0.53
<b>Adjusted valuations v/s</b>							
<b>Average</b>	<b>-10%</b>	<b>-17%</b>	<b>0%</b>	<b>10%</b>	<b>25%</b>	<b>6%</b>	<b>1%</b>
<b>-1 Std deviation</b>	<b>15%</b>	<b>13%</b>	<b>33%</b>	<b>39%</b>	<b>68%</b>	<b>32%</b>	<b>37%</b>
<b>Lehman Low</b>	<b>-59%</b>	<b>-55%</b>	<b>-32%</b>	<b>-48%</b>	<b>-55%</b>	<b>-32%</b>	<b>-37%</b>

Source: PL Research

**Exhibit 6: Industry-wise classification of approved cases**

Industry	Mar-10		Mar-11		Jun-11		Sep-11	
	No.	Debt (m)	No.	Debt (m)	No.	Debt (m)	No.	Debt (m)
Iron & Steel	25	366,730	25	366,730	26	368,230	28	374,610
Fertilizers	8	84,540	8	84,540	8	84,540	8	84,540
Textiles	47	89,020	54	102,270	54	102,270	55	106,600
Petrochemicals	3	54,930	3	54,930	3	54,930	3	54,930
Refineries	1	48,740	1	48,740	1	48,740	1	48,740
Cements	6	46,630	8	59,280	8	59,280	8	59,280
Telecom	7	52,500	8	54,270	8	54,270	8	54,270
Sugar	20	53,280	23	61,310	23	61,310	23	61,310
Power	7	38,360	7	38,360	7	38,360	7	38,360
Chemicals	13	27,170	14	28,230	15	28,980	15	28,980
Metals (Non-ferrous Metals)	5	21,710	5	21,710	5	21,710	5	21,710
Electronics	2	21,320	2	21,320	2	21,320	3	25,210
Infrastructure	9	51,660	9	51,660	10	55,960	10	55,960
Pharmaceuticals	6	21,300	6	21,300	8	31,610	8	31,610
Paper/Packaging	11	11,990	13	18,860	14	19,630	14	19,630
Cables	7	7,650	8	12,010	8	12,010	8	12,010
Automobiles	2	5,510	2	5,510	2	5,510	2	5,510
Auto Components	7	5,630	7	5,630	7	5,630	7	5,630
Wood Products	1	4,630	1	4,630	1	4,630	1	4,630
Engineering	6	4,540	8	7,580	8	7,580	8	7,580
Ceramic Tiles	5	3,330	6	3,740	6	3,740	7	7,750
Ship-Breaking/Ship Building	1	1,760	2	8,690	2	8,690	2	8,690
Rubber	3	1,670	3	1,670	3	1,670	3	1,670
Hotels	2	1,470	3	3,730	3	3,730	3	3,730
Forgings	1	1,120	1	1,120	1	1,120	1	1,120
Glass	2	820	2	820	2	820	2	820
Plastic	2	2,140	3	3,990	3	3,990	3	3,990
Retail	1	4,700	1	4,700	1	4,700	1	4,700
Battery	1	350	2	670	2	670	2	670
NBFC			2	2,140	6	65,920	6	65,920
Hospital & Healthcare							1	1,010
Food & Food Processing							3	5,250
Other	4	7,790	5	9,000	5	9,000	3	5,080
<b>Total</b>	<b>215</b>	<b>1,042,990</b>	<b>242</b>	<b>1,109,140</b>	<b>252</b>	<b>1,190,550</b>	<b>259</b>	<b>1,211,500</b>

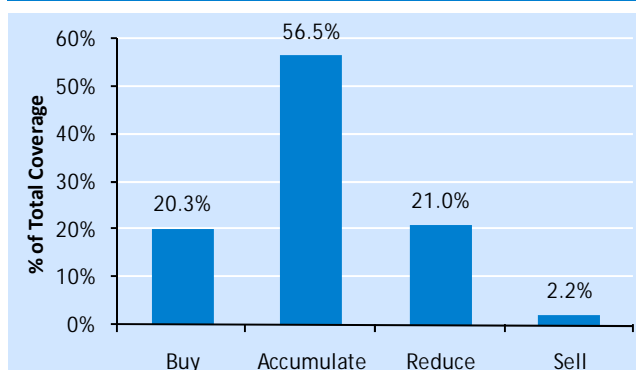
Source: PL Research

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.